

REPORT TO: Cabinet

DATE: 8th July 2010

SUBJECT: Annual Treasury Management Report 2009/10

WARDS AFFECTED: All

REPORT OF: John Farrell
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EXEMPT/CONFIDENTIAL: No

PURPOSE/SUMMARY:

To inform members of Treasury Management Activities undertaken in 2009/10.

REASON WHY DECISION REQUIRED:

To comply with the requirements of the Council's Treasury Management Policy Statement.

RECOMMENDATION(S):

Cabinet is requested to note the Annual Treasury Management Report 2009/10

KEY DECISION: No

FORWARD PLAN: No

IMPLEMENTATION DATE: Following the expiry of the 'call-in' period for the minutes of this meeting.

ALTERNATIVE OPTIONS:

The Cabinet could decide not to comply with the CIPFA Code of Practice on Treasury Management, which recommends both production of and reporting on Treasury Management Policy and Strategy Documents. It is felt that non-compliance with the Code would significantly increase the risks associated with the activity and would not be complying with best practice.

IMPLICATIONS:

Budget/Policy Framework: Compliance with the Policy and Strategy Documents, incorporating appropriate reporting, will enable the Council to secure the most favourable terms for raising funds, maximise returns on investments whilst at all time minimising the level of risk to which it is exposed.

Financial: There are no additional Financial implications as a result of the report.

<u>CAPITAL EXPENDITURE</u>	2009/ 2010 £	2010/ 2011 £	2011/ 2012 £	2012/ 2013 £
Gross Increase in Capital Expenditure	---	---	---	---
Funded by:	---	---	---	---
Sefton Capital Resources	---	---	---	---
Specific Capital Resources	---	---	---	---
<u>REVENUE IMPLICATIONS</u>				
Gross Increase in Revenue Expenditure	---	---	---	---
Funded by:				
Sefton funded Resources	---	---	---	---
Funded from External Resources	---	---	---	---
Does the External Funding have an expiry date? Y/N	When?			

Legal: None.

Risk Assessment: Compliance with the Policy and Strategy Documents minimise the level of risk to which the Council is exposed.

Asset Management: None.

CONSULTATION UNDERTAKEN/VIEWS

Discussion with the Council's Treasury Management Advisor – Sector Treasury Services.

CORPORATE OBJECTIVE MONITORING:

<u>Corporate Objective</u>		<u>Positive Impact</u>	<u>Neutral Impact</u>	<u>Negative Impact</u>
1	Creating a Learning Community		√	
2	Creating Safe Communities		√	
3	Jobs and Prosperity		√	
4	Improving Health and Well-Being		√	
5	Environmental Sustainability		√	
6	Creating Inclusive Communities		√	
7	Improving the Quality of Council Services and Strengthening local Democracy	√		
8	Children and Young People		√	

LIST OF BACKGROUND PAPERS RELIED UPON IN THE PREPARATION OF THIS REPORT

None.

BACKGROUND:

1. Introduction

- 1.1. The Treasury Management Policy and Strategy Statements are agreed annually by the Council as part of the budget process. A requirement of the Policy Statement is the reporting to Cabinet of the results of the Council's treasury management activities in the previous year. Treasury management in this context is defined as:

'The management of the authority's cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.'

- 1.2. In accordance with the above this report outlines the results of treasury management activities undertaken in 2009/10 covering the following issues:

- borrowing strategy and practice
- the Council's current Debt Portfolio
- compliance with Treasury Limits
- compliance with Prudential Indicators
- investment strategy and practice.

- 1.3. The results of treasury management activities in 2009/10 are also reflected in the net expenditure on Capital Financing Costs included within the Council's Revenue Budget. The 2009/10 outcome for Capital Financing Costs is presented within a separate report elsewhere on today's agenda.

2. Borrowing Strategy and Practice

- 2.1. In 2009/10 repayments of £14.635m were made to The Public Works Loan Board (PWLB). The repayments comprised £0.933m in respect of the repayment of the principal element of annuity loans, and £13.702m in respect of the repayment of the principal element of maturity loans.

- 2.2. The Council employs Sector Treasury Services (Sector) for advice on treasury issues. Taking account of their advice, market conditions, the Council's cash flow position and requirements to finance capital expenditure in the year no new long term borrowings were undertaken. However, a number of short term borrowings were undertaken with other public bodies as follows:

AMOUNT	RATE	DATE	DURATION
£15m	0.38%	19/11/2009	1 month
£5m	0.45%	18/03/2010	3 months
£5m	0.45%	19/03/2010	3 months

2.3. The Council's external debt activity in the year is summarised in the following table:

		£'000
	Opening PWLB Debt 01/04/2008	126,570
Less	Repayment Principal Loans	(14,635)
	Closing PWLB Debt 31/03/2010	111,935

3. Current Debt Portfolio

3.1. The Council's current debt portfolio, taking account of the transactions detailed in paragraph 2, can be summarised as follows:

DEBT PORTFOLIO		
	<u>2008/09</u>	<u>2009/10</u>
Average Interest Rate Payable on Debt in Year	4.93%	4.91%
<u>Debt Outstanding</u>	<u>31 March 2009</u>	<u>31 March 2010</u>
	<u>£'000</u>	<u>£'000</u>
<u>Fixed Rate Funding</u>		
PWLB	126,570	111,935
Other – Sefton Bonds	16	16
Total Debt	<u>126,586</u>	<u>111,951</u>

3.2. The movement in debt reflects the financing decisions taken in paragraph 2, the effect of which has been to reduce the average interest rate payable in 2009/10.

4. Compliance with Treasury Limits

- 4.1. The following Treasury Limits were approved by Council during the 2009/10 Budget Setting process:

TREASURY LIMITS 2009/10		
	LIMIT	ACTUAL
The Overall or Authorised Borrowing Limit	£195.5m	£1111.95m
The amount of the Overall Borrowing Limit which may be outstanding by way of short term borrowing.	£15.0m	£15.0m
The proportion of External Borrowing which is subject to variable rate interest.	15%	Nil

- 4.2. During the financial year the Council operated within these limits. As can be seen from the table in paragraph 3.1 above the Authority is within the overall borrowing limit, total fixed rate funding debt at 31 March 2010 being £1111.951m.

5. Compliance with Prudential Indicators

- 5.1. The following Prudential Indicators were approved for the 2009/10 financial year:

i) **Interest Rate Exposure Indicators**

- a) an upper limit of debt outstanding less investments held at fixed interest rates of 160% of the value of total debt outstanding less total investments;

ACTUAL AT 31/03/2010 -FIXED INTEREST RATE 120.1%

- b) an upper limit of debt outstanding less investments held at variable interest rates of 15% of the value of total debt outstanding less total investments.

ACTUAL AT 31/03/2010 - VARIABLE INTEREST RATE - 20.1%

Hence all of the above are within the limit set.

ii) **Non Specified Investment Indicator**

An upper limit on the value of non-specified investments of 40% of total investments. Non specified investments are defined as over 1 year but less than 5 years;

ACTUAL AT 31/03/2009 – NON HELD.

iii) **Debt Maturity Indicator**

A profile measuring the amount of borrowing that is fixed rate that will mature in each period as a percentage of total borrowing that is fixed rate:

DEBT MATURITY PROFILE			
	<u>Upper Limit</u>	<u>Lower Limit</u>	<u>Actual 31/03/2009</u>
Under 12 months	35.00%	0.00%	0.00%
12 months and within 24 months	40.00%	0.00%	0.15%
24 months and within 5 years	40.00%	0.00%	9.63%
5 years and within 10 years	40.00%	0.00%	0.72%
10 years and above	90.00%	25.00%	89.50%

5.2. The indicators have been monitored throughout the year and for information the actual figures at 31 March 2010 are shown. No breaches of the indicators have occurred.

5.3 The 10 year and above band is nearing it's ceiling due to the low level of borrowing in recent years, allied with the repayment of debt as it fell due in 2009/10.

6. **Investment Strategy and Practice**

6.1. The Council invests all available cash balances, which includes school balances and the insurance fund, following a policy of obtaining maximum returns whilst minimising risks.

i) **Externally Managed Investments**

No externally managed funds are held.

ii) **Internally Managed Investments**

The Council's available funds averaged £72.43m and were managed with advice from Sector.

In 2009/10 a return of 1.88% was achieved. This is more than the benchmark 7 day LIBID figure of 0.42% and is considered to be an

acceptable return. The key objective is to firstly secure security, liquidity and then yield.

6.2. The level of the Council's investments is summarised in the following table:

<u>Investments</u>	<u>31 March 2009</u>	<u>31 March 2010</u>
	£m	£m
Internally Managed Investments	49.05	31.25
Externally Managed Funds	<u>0.00</u>	<u>0.00</u>
Total Investment of Cash Balances	<u>49.05</u>	<u>31.25</u>

7. **Recommendation**

7.1. Cabinet is recommended to note the Annual Treasury Management Report for 2009/10.